

Capital Investment Plan 2011

(CIP 2011)

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1 Consultation Status

This document is for consultation. HAL encourages airlines to submit views on this document by the end of July 2011, so that they are taken into account in the development of the airport's future capital investment plans.

2 Introduction

This document is Heathrow Airport Limited's (HAL's) Capital Investment Programme for 2011, and is known as "CIP 2011".

The document sets out the capital investment projects currently being proposed by HAL for the regulatory period from April 2008 to March 2013 (Q5). Its purpose is to provide a progress update to airlines and facilitate consultation on capital investment at Heathrow. Where airlines require further information to understand proposed investments HAL will endeavour to respond to these requests.

HAL also intends to consult airlines during 2011 on the key strategic issues that will influence the overall size and shape of HAL's ten-year investment programme and need to be included in Q6.

During 2011 and 2012, HAL will also be working with airlines and other stakeholders to develop a new Heathrow masterplan which will set out how it intends to develop the airport over the period to 2030.

The CIP 2010 document was circulated amongst the Heathrow airline community in May 2010, together with a request for feedback. The period of consultation closed at the end of July 2010. Heathrow welcomes the responses it received from airlines which have helped inform CIP 2011 and assisted work associated with the masterplan.

2.1 Regulatory years

2.1.1 Q5 Extension

In March 2011 the CAA confirmed that, exercising its powers under Section 40 of the Airports Act, it had decided to extend Q5 to March 2014. The extension of Q5 by a year was largely due to the CAA's desire that the Airport Economic Regulation Bill be enacted prior to determining the terms for Q6 regulatory period.

HAL has agreed with the airline community a cap for its capital programme in the extension year, 2013/14 of £735m (2007/08 prices). All existing Q5 capital investment triggers will continue, but are subject to on-going negotiation through the existing change control processes.

CIP 2011 includes high level information for the Q5 extension year – 2013/14.

2.1.2 Q6

As a result of the CAA's decision to extend Q5 by one year, Q6 will now commence in 2014/15. As part of the Q6 constructive engagement process the CAA has encouraged HAL and the airline community, in the remainder of 2011, to seek consensus on the key issues that need to be addressed in Q6.

HAL will consult the airline community on the strategic issues which will influence the overall size and shape of the ten-year investment programme, and will integrate this into HAL's draft business plan submission for the Q6 settlement process. This will include traffic forecasts and other critical assumptions. HAL currently envisages issuing a Q6 business plan consultation document by the end of 2011. This will enable airlines to see the high level options for a ten-year investment programme within the overall context of the service delivered at the airport and estimates of the range of charges. This will be followed by the publication of a CIP document in May 2012 and a detailed Q6 Business Plan to be published during the summer of 2012 for review. The Q6 Business plan will be updated in March 2013 to help inform the publication of CIP 2013, which will include the remainder of Q5 and a 10 year investment plan. Final submission of the Q6 Business Plan will be in November 2013.

2.2 CIP 2010 to CIP 2011

As agreed with Heathrow airlines at the CIP Working Group on 21st April 2011 and the Joint Steering Team on 9th May 2011, the cost information for CIP 2011 includes:

- Q5 projects only
- Q5 extension Projects (high level)

3 Strategy and Vision

Heathrow Airport is the United Kingdom's only international hub airport and a vital piece of national infrastructure.

Flying is of great value to the United Kingdom, for the economy, for society and for consumers. It fosters investment, trade and links multicultural Britain to an increasingly globalised world. What matters most to travellers is being able to get where they want to go, when they want to go. Heathrow's strong network of short-haul and long-haul traffic enables it to offer a wide-range of destinations which point-to-point UK airports cannot match. Heathrow is able to serve important long-haul destinations, at higher frequencies with bigger planes, which benefits London and the UK. HAL also recognises the importance of point-to-point traffic for airlines and the mutually reinforcing relationship between a strong point-to-point business and a strong hub.

Heathrow competes for customers with other hubs across Europe. The shared vision of HAL and airlines is to make Heathrow Europe's 'hub of choice'. HAL believes the most important way to achieve this vision is to prioritise continuous improvements in passengers' experience. Over the long term, this means investing in Heathrow's infrastructure and capacity. To become a hub of choice such investments at Heathrow must also be affordable, and within a range of charges that is competitive for airlines given the market yields they can achieve at Heathrow. Achieving a good balance between improved experience for passengers and overall long term affordability is an important aspect of HAL's consultation on investment plans, especially in the context of the Government decision to stop plans for a third runway at the airport.

3.1 Vision for Heathrow Airport

During 2009 HAL consulted with the airline community and agreed a common vision statement. HAL continues to focus on this vision.

The shared vision for a future Heathrow is:

" To be a world class airport - the UK's direct connection to the world and Europe's hub of choice by making every journey better"

For Heathrow to provide the direct international connections that support economic growth in the UK, it needs to persuade airlines and passengers who have a choice that it is better to fly from Heathrow.

During Q5 HAL has taken steps towards becoming Europe's hub of choice. The capital investment programme has modernised Heathrow to provide a better airport experience for passengers. Terminal 5, the first new Heathrow terminal for a quarter of a century is now serving over a third of Heathrow passengers and achieving scores equal to the best in Europe in passenger surveys. Terminal 5C opens in 2011 and will build on this improvement for passengers. 2011 is also seeing steady progress on the new Terminal 2. Major refurbishments have been completed in areas of Terminals 3 and 4 and are beginning to show results in passenger feedback. Operational metrics such as baggage misconnections are also showing steady improvement, and Q1 2011 has seen a strong performance in punctuality.

There is still much to do, from providing new facilities to ensuring resilience or courteous service for every passenger, every time. HAL is striving to continuously improve, making every journey better for its customers.

However, HAL does not operate many of the critical activities on the airport – check-in, ground handling or immigration are examples. Thus while capital investment by HAL can drive major improvements, in many cases it is also imperative that HAL works collaboratively with airlines and others on better processes and agreed standards for passengers. Close collaboration is also imperative to ensure that HAL understands the business requirements of airlines at Heathrow and responds to those requirements with Heathrow’s investments and operations.

Through consultation HAL has agreed a number of strategic statements with the airline community which help to describe the vision for a future Heathrow. Discussed with airlines in 2010, HAL intends to hold to these intents for the medium term. These are statements of ‘strategic intent’ and they set out how the vision statement might be achieved.

HAL's strategic intents for Heathrow are to:

- Deliver an airport experience that is the preferred choice for passengers
- Deliver a hub airport supported by the airline community
- Run an operation that is reliable, resilient and efficient
- Deliver an airport outcome that is successful in financial terms
- Enable a positive employee experience that is focused on increased productivity and efficiency
- Design and deliver quality, predictable, value for money infrastructure
- Deliver an airport which is sustainable
- Be responsive to the needs of stakeholders

3.2 Heathrow Airport Strategic Overview

3.2.1 Heathrow Traffic Forecasts for Q5, Q6 and beyond

3.2.1.1 Introduction

HAL provided forecasts to 2019/20 in CIP 2010 that were prepared in March 2010. They were developed in a context where a third runway was expected to deliver new capacity, and less than two years into a Q5 settlement in which the CAA anticipated strong growth – for example reaching 72.5 million passengers in 2009/10 and 74.5 million passengers in 2010/11.

HAL received feedback from airlines indicating their concerns over aspects of the forecasts in CIP 2010. Airlines expressed reservations over the continuing relevance of HAL’s historical forecasting model. In light of actually achieved increases in load factor and aircraft size at Heathrow, respondents noted HAL forecasts had developed a tendency to be over optimistic, with implications for affordability. Airlines also asked for more transparency over forecasting methods and assumptions and for third party validation of the modelling process.

In addition, in May 2010 the UK Government withdrew support for a third runway, taking a clear stance opposing any airport expansion in the South East. This change in policy direction raised the question of whether airlines could commercially pursue the same investment and growth path at an indefinitely constrained two runway Heathrow.

HAL accepts these points on long term forecasts and believes they require review and detailed consideration. In response HAL has from January 2011 begun joint discussions with airlines at Heathrow to review Heathrow passenger forecasts. These discussions are intended as a structured and objective way to debate approaches, clarify assumptions and externally validate Heathrow forecasts. As such, they allow for a comprehensive

review of market conditions at Heathrow. HAL's aim is to jointly achieve a more accurate forecast as a basis for affordable and realistic future planning to the benefit of the entire Heathrow community.

Given this joint review, HAL has begun to revise its internal modelling approach as an initial base for these discussions. However, at the point of publication, airlines have not had the chance to fully respond, validate and input into these forecasts, therefore HAL is not yet formally revising Heathrow's long term passenger forecasts.

Over the course of 2011, HAL will highlight the potential for joint discussions to lead to additional revisions in methods, assumptions or numbers from those emerging from the HAL internal work. HAL invites any airlines interested in these discussions to participate in the joint working group alongside airlines already involved.

As background to these discussions, the remainder of this section describes the industry context underlying Heathrow forecasts and the approach and key high level assumptions adopted in the latest internal forecast revisions.

3.2.1.2 Recent traffic trends

Heathrow passenger volumes grew steadily through the 1990s, reaching 64.3 million passengers in 2000. Recession and 9/11 led to a sharp fall in volumes early in the last decade, with some recovery through to 2007 as the world economy grew. Even in this period, overall passenger growth at Heathrow, and growth in average aircraft size, slowed compared to the 1990s. With the advent of the major worldwide recession in 2008-9 Heathrow traffic has proven more resilient than other hubs in Europe and other non-hub UK airports. The result is that overall passenger growth in the decade 2000 to 2010 has been 0.2% per annum and average seats per aircraft has actually slightly declined from an average of 202 in 1999 to 196 seats/aircraft in 2010. While these numbers do not adequately capture periods of stronger growth because they are at different points in the economic cycle (Heathrow's highest ever passenger numbers to date were in 2005) they are illustrative of a prolonged period of slower growth than seen in previous decades.

HAL identifies a number of potential factors for this change in traffic patterns:

- Changing airline business models, most noticeably a shift in network strategies which has slowed the trend from smaller to larger aircraft. New aircraft have allowed airlines to achieve lower unit costs per seat with smaller planes. Premium traffic has become a larger portion of many network airlines' business also resulting in lower seat densities. Airlines have also benefited from greater flexibility or shorter lead times in making capacity decisions. These changes have allowed network carriers to respond to the challenge of short haul low cost carriers and increased network competition. The need to maintain a viable network with a mix of short and long haul connections also slows the overall trend at Heathrow to switch from short haul to long haul flights.
- The increasing impact of the air traffic movement capacity constraint on market dynamics at Heathrow. A formal constraint of 480,000 ATMs was introduced as part of the Terminal 5 planning decision. The effects of this have potentially increased as total movements have approached the cap. The Government decision against expansion in 2010 can only have reinforced the effects of the cap on the way economic demand is translated into actual passenger numbers in a constrained two runway Heathrow.

- An increase in airline or passenger costs sustained over a number of years and through the economic cycle, such as UK Air Passenger Duty, a sustained upward shift in real terms in the oil price and indeed airport charges. At the same time airlines remain under financial pressure to rebuild their yields and profitability, so reducing their long term ability to absorb cost increases for passengers.
- A series of 'one off' events ranging from 9/11, SARS and security changes to volcanic ash, extreme weather and strikes have reduced passenger numbers. While each event in itself can be viewed as a random occurrence, the frequency of impact on Heathrow traffic has apparently increased, and Heathrow's ability in an increasingly capacity constrained airport to respond to compensatory positive events may have reduced

Balanced against these factors is the strong evidence for continued growth in demand to travel through Heathrow. A large body of evidence, and preliminary regressions of Heathrow behaviour, suggest that sustained economic growth will translate into some growth in passenger numbers. Heathrow's exposure to global markets, including emerging economies with higher potential for increased levels of flying as they grow richer, also supports the case for future growth.

Such underlying growth factors are part of the explanation for Heathrow's underlying resilience in traffic numbers despite the slow recovery of the world economy. HAL estimates that if the adverse effects of volcanic ash, strikes and snow disruption were removed Heathrow would have seen around 68.3 million pax in 2010. This would have represented growth versus 2009 as the world economy recovered, and indeed Heathrow saw a number of record months in summer 2010. With the impact of these events the actual figure was 65.7m – a reduction of 0.2%. Actual figures for Q5 to date are shown in Table A below.

| Regulatory year CAA settlement forecast | 2008/09 | 2009/10 | 2010/11 |
|--|----------------|----------------|----------------|
| Actual volumes | 70.4 | 72.5 | 74.5 |
| % Growth | 65.9 | 66.1 | 66.1 |
| | -3.1% | 0.3% | 0.0% |

Passenger values in millions

Table A: Actual Heathrow trends in Q5 to date

3.2.1.3 Heathrow's Approach to Traffic Forecasting

Heathrow forecasts have long been a product of both top down and bottom up methods. The most recent work on forecasts has modelled long term trends using both econometric and airline capacity methodologies. In particular it has begun to directly model market behaviour at a constrained Heathrow with econometric approaches based on historical analysis. Previously the only method that imposed the 480,000 ATM cap was via a capacity model. Our work is now trying to develop an alternative to use as a cross-reference. The method under development also hopes to retain, even for an indefinitely constrained two runway Heathrow, the long established econometric modelling tools used in aviation to link growth to fundamental economic drivers. It

should be noted that these forecasts are therefore not designed to estimate latent demand at Heathrow nor any scenario that would allow for extra capacity in the future.

HAL and others' passenger forecasts have also historically produced a single line estimate of passenger numbers. Feedback from stakeholders identified some limitations of this approach. Firstly it does not capture the inherent uncertainty in forecasting Heathrow numbers given the complex interactions of multiple factors such as economic growth, the oil price or aircraft purchases which are themselves hard to forecast. Secondly, the appropriate level of forecast may differ depending on the purpose intended. For example, the scoping for some capacity investments might be more sensibly based upon the possibility of a faster increase in passenger numbers than considered in the most likely case. For these reasons HAL has attempted to produce a ranged forecast. A similar methodology for producing ranges has been adopted as used in other industries when forecasting uncertain, complex trends, for example by the Bank of England in forecasting inflation. A probability based range has been estimated for both the econometric and the capacity based models.

Work so far has also led to some revision in assumptions. For example in the econometric modelling the impacts of potential increases in Air Passenger Duty or airport charges have been more fully included, although the possibility of no increase in APD is also included. The provisional model now also includes some allowance for periodic events akin to the volcanic ash cloud or SARS impacting traffic numbers. Modelling also assumes that airlines could achieve fuel efficiency gains of up to 2.37%, in line with Sustainable Aviation estimates, and pass these through as reduced fares. Price and income elasticity estimates have also been revised based on regressions of actual Heathrow responses over the last decade, currently as far back as fare data allows. Elasticity estimates have also been cross-checked against comprehensive academic studies. We are now working toward expert third party validation of the approaches with the airline community to help further validate and refine emerging forecasts.

3.3 Heathrow's Masterplan and Land Use Plan

3.3.1 Existing Masterplan

The airport masterplan provides the basis for consultation on the long term vision for the capital development of the airport over an extended time frame. Given the scale of master planning work and the long term nature of the content they should be reviewed approximately every five years, or as required given the broader context within which the specific airport is operating.

In 2005 HAL published its interim masterplan taking into account the Government's 2003 Air Transport White Paper and the Department for Transport's guidance on airport master plans. The interim masterplan set out the long term proposals for a two runway airport and updated the position at that time in respect of the third runway.

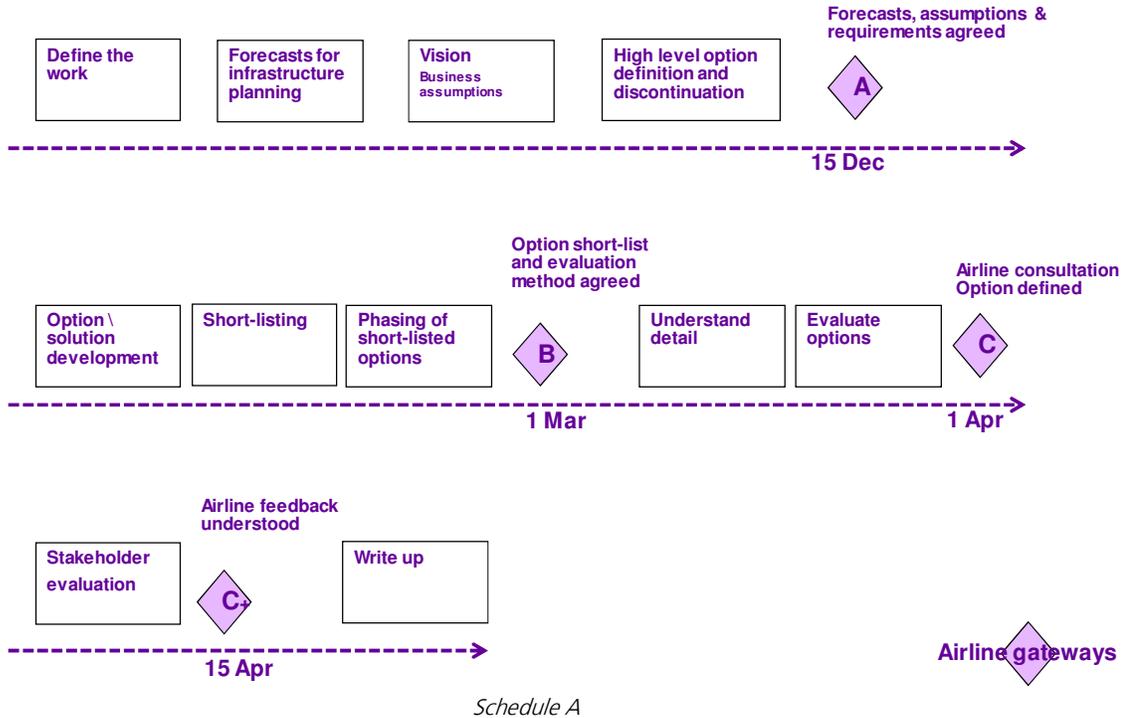
The 2005 masterplan was prefixed by the term "interim" to reflect the on-going nature of the policy consultation and the resultant fact that any Heathrow masterplan produced at that time, for either a two or three runway layout, could not be definitive given the range of potential outcomes from the policy process.

3.3.2 Masterplan and Land use Plan Development Process

In response to the then existing Government policy, between Jan 2009 and May 2010 HAL prepared detailed proposals for the development of the airport to accommodate a third runway at Heathrow.

Following the change to Government policy in May 2010, Heathrow has commenced the definition of a two runway, policy compliant masterplan. The headline milestones for the first half of this process (Nov 2010 to April 2011) are described in schedule A below:

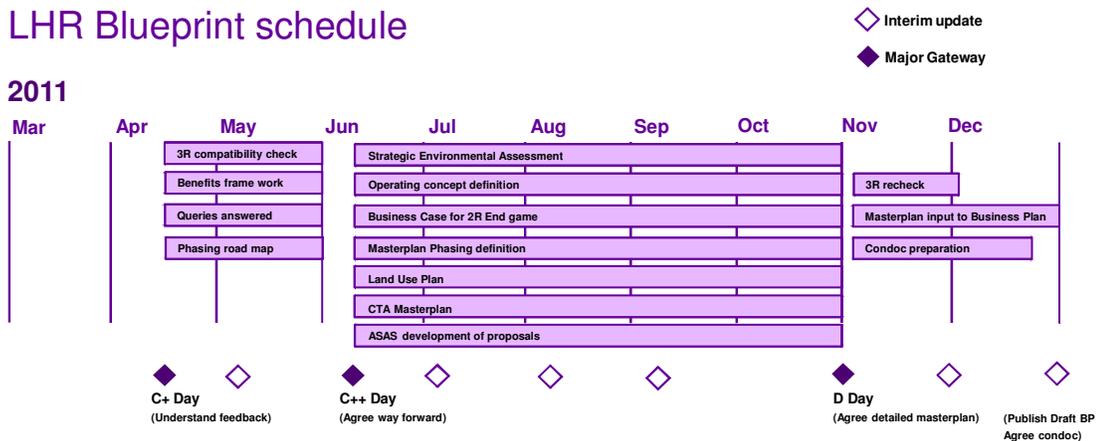
2R Masterplan – Schedule 2010 / 2011



Stakeholder involvement has been ensured through the use of a series of gateway events and the establishment of an airline working group, with the result that the airline community has expressed confidence in the methodology being followed and broad agreement with the development options now being considered.

Having established the direction for the layout of terminals and aprons by June 2011, the masterplan definition process will continue through the second half of 2011 to determine the other elements required to complete the masterplan picture or "Heathrow Blueprint". The high level process is shown in Schedule B below:

LHR Blueprint schedule



Schedule B

Once the elements of the complete masterplan are agreed, it is Heathrow's intention to publicly consult on the content. The timing of this consultation has yet to be finalised.

Whilst there is detail that still needs to be developed, the significant work that has been carried out on the third runway and two runway masterplans in the last two years has established a clear understanding of the long term direction for investment at Heathrow and thus provides a solid foundation from which Q6 infrastructure planning can be undertaken with confidence.

3.3.3 Risks and Assumptions

HAL records the risks and assumptions that underpin long term development plans. It is intended that such records be one of the main cornerstones of the plan and how they might be implemented/impact on the airport with any points being clearly linked back to the master-planning aspirations.

As work is currently on going with the airline community to develop a new masterplan at this time no record of risks and assumptions is included in CIP 2011.

3.3.4 Sustainability

Heathrow provides valuable economic and social benefits. The airport also has impacts on the local communities and environment around the airport. As a responsible business, HAL needs to find the right balance between economic, social and environmental objectives: enhancing the positive impacts that Heathrow brings, while minimising the negative impacts and meeting agreed environmental limits.

Delivering an airport which is sustainable is one of the strategic intents that underpins HAL's vision for Heathrow to be 'Europe's hub of choice'. This means creating a future Heathrow which:

- is safe and secure for staff, passengers and the airport community
- enables the achievement of positive social and economic effects
- seeks to prevent, reduce or offset significant effects on communities and the environment
- has surface access which limits congestion and other local effects
- HAL has set long-term goals on key environmental issues, with accompanying strategies to deliver them. The goals include:
 - Climate change: by 2020 reducing carbon emissions from energy use in fixed assets at the airport by 34% compared to 1990 levels
 - Noise: limit and where possible, reduce the impacts of noise at the airport (see HAL's Noise Action Plan for further detail on specific targets)
 - Air quality: Heathrow's role in driving full compliance with EU air quality limits
 - Waste: by 2020 recycling 70% of airport waste

HAL sets annual performance targets on these and other issues, and regularly reviews and updates its goals and strategies.

3.3.5 Surface Access

HAL has maintained a clear, consistent and evolving Surface Access Strategy for Heathrow since the first consultation document was launched in 1996. The latest version of this was published in October 2008 called "Sustaining the Transport Vision:

2008-2012". The strategy has been reviewed and updated at regular intervals, with the latest edition to be published in 2012.

In April 2011 HAL announced a new rail strategy with a view to improving passenger experience, taking cars off the road and placing the economic benefits of the UK's only hub airport at the centre of the national rail network. The new programme, called the Wider Heathrow Integrated Rail Strategy (WHIRS), seeks to build on previous investment by ensuring that Heathrow has fast, frequent and comfortable rail connections for passengers, whilst at the same time significantly improving links to the surrounding community.

The first priority for WHIRS will be to ensure that Crossrail provides passenger-friendly, convenient connections for Heathrow travellers. The airport operator will also continue to invest in enhancements to Heathrow Express to ensure that passengers continue to have the choice of a premium, express service into central London.

There is a strong case for rail access from the west of Heathrow, providing a direct connection with Slough, Reading and the Thames Valley for the first time, as well as the South West via the Great Western Mainline.

The concept of connecting the airport to the south has long been mooted and Heathrow remains supportive of a southern connection to the airport. However, HAL has decided after a very careful evaluation to terminate all works on the Airtrack project and therefore withdraw the Airtrack Transport and Works Order application. This decision was made after an internal review and in consultation with airlines and other key stakeholders. The decision took account of the difficulties in progressing aspects of the project and the likelihood that, in the current financial circumstances, there would be no public sector funding support forthcoming for the project. HAL remains supportive in principle of a southern connection to Heathrow.

Beyond connectivity to the airport for passengers, the strategic nature of Heathrow Airport as a UK transport node and its ability to act as an interchange and 'hub' for bus, coach and rail routes is increasingly recognised. HAL is keen to see the development of even stronger public transport links as part of airport development.

3.3.6 High Speed Rail

In January 2009, the Government established High Speed Two Ltd (HS2 Ltd) to consider options for a new high speed rail network in Britain. On 20th December 2010 the Government announced its preference for serving Heathrow by a spur from a main London-West Midlands high speed line. Such a spur would retain the flexibility to be extended to form a loop back onto the main line in future, enabling through services via the airport to London. The Government proposes to work with BAA and others to determine the optimal location for a station at the airport, and HS2 Ltd has been commissioned to develop route proposals for a spur by the end of 2011.

Heathrow welcomes the Government's plan for placing the airport at the heart of the UK's high speed rail network, and will work with them to ensure high speed rail is properly linked to Heathrow and the regional rail network for the benefit of all passengers.

4 Regulatory and Legislative Context

Capital development at Heathrow, as outlined in this document, takes place within a framework of regulatory and legislative policy. This section provides an overview of the current issues that have an influence on capital investment at Heathrow.

4.1 Aviation and Airport Policy

Since 2003 the Air Transport White Paper provided the Government policy context for the development of the third runway and associated infrastructure at Heathrow. In May 2010 the new Coalition Government made clear through its joint policy document 'The Coalition: Our Programme for Government' that the previous policy support for a third runway would be withdrawn.

In response to the Coalition Government's change of policy to resist further runway expansion in the South East HAL announced that it had stopped work on the planning application for a third runway.

In the Queen's Speech in May 2010 the new Government made clear that, having ruled out new runways in the South East, it would engage with all stakeholders in the sector to develop a new vision for a competitive aviation industry to support UK economic growth and designed within the constraints of the existing runway infrastructure

4.2 Economic Regulation

4.2.1 Current Regulation

The 1986 Airports Act established a system of economic regulation for those airports with an annual turnover in excess of £1 million (in at least two of the three previous financial years). Under the terms of the Act, such airports must have permission, granted by the Civil Aviation Authority (CAA), in order to levy airport charges.

In addition, the act also allows for the designation of airports, by the Secretary of State, for price cap regulation. Heathrow airport is currently a designated airport and is therefore subject to economic regulation by the CAA. The CAA conducts a regulatory review every five years (Quinquennium). The latest regulatory review took place in 2007/08 (i.e. price control review), where the regulator set the price cap for airport charges effective 1st April 2008 to 31st March 2013.

Section 39 of the Airports Act imposes four duties on the CAA in determining the price formula, namely:

- To further the reasonable interests of users of airports within the United Kingdom;
- To promote efficient, economic and profitable operation of such airports;
- To encourage investment in new facilities at airports in time to satisfy anticipated demand by the users of such airports; and
- To impose the minimum restrictions that are consistent with the performance by the CAA of its functions under those sections.

It should be noted that under the third duty above, anticipated demands for airport users includes future users as well as current users. The definition of users (in Section 82 of the Airports Act 1986) includes both airlines and passengers, and no priority is specified between these two groups.

The March 2008 CAA Decision¹ sets out the relevant regulatory parameters for Q5 which include the planned capital expenditure totals for Q5. CIP 2011 relies on the capital expenditure allowances set forth in the decision document

4.2.2 Future Regulation

In April 2008, the Secretary of State announced a review of the regulatory framework for UK airports. The regulatory system for airports is one of the oldest systems having been in place since the Airports Act of 1986.

There were three objectives set for the future development of the regulatory framework which reflected the Government's policy objectives:

- Improving the passenger experience
- Encouraging appropriate and timely investment in additional capacity to help deliver economic growth in line with wider Government policy
- Addressing the wider environmental impacts of aviation on airport development.

The Government published its decision on the framework for the economic regulation of airports in December 2009.

The Queen's Speech in May 2010 set out the new Coalition Government's intended legislative programme for 2010 and 2011. The Government stated its intention to bring forward an Airport Economic Regulation Bill during this period to replace the current framework for airport regulation contained in the Airports Act 1986. The Government stated that Ministers will consider the content of these reforms and provide further detail in due course.

In July 2010 the Government confirmed its approach to reforming economic regulation of airports. Under the plans, the CAA will have a single primary duty to promote the interests of passengers, with a number of further duties including a duty to ensure regulated companies can finance their activities. The proposals would also see a switch to a new regulatory licensing regime.

In February 2011 the CAA launched a consultation on the potential extension of Heathrow's current regulatory period by one year to 31 March 2014. This reflects the fact that the Bill is now unlikely to be introduced into parliament before the 2012 session and the CAA's desire that the Airport Economic Regulation Bill is enacted prior to determining the terms for Q6 regulatory period.

In March 2011 the CAA confirmed that, exercising its powers under Section 40 of the Airports Act, it had decided to extend Q5 to March 2014.

The CAA's view was that it was not in the interests of users to start Q6 under one legislative framework and then switch to another framework part way through, and that users' interests would be furthered by undertaking Q6 under the proposed legislation. In this regard in March 2011 the Secretary of State for Transport confirmed in a written material statement to parliament that it intends to introduce legislation to reform airport economic regulation, early in the next parliamentary session which is assumed to start in May 2012.

¹ Economic Regulation of Heathrow and Gatwick Airport 2008 - 2013, CAA Decision, March 2008.

4.3 Other Relevant Issues

4.3.1 The Town and Country Planning System

4.3.1.1 Airport Development

All development is regulated by primary legislation set out in the 1990 Town and Country Planning Act and the 2008 Planning Act. Secondary legislation, such as the General Permitted Development Order (GPDO) 1995, further defines what types of development may not require planning permission, including aviation development before they are carried out.

The GPDO defines what types of development at an airport can be regarded as 'permitted development', i.e. development not requiring planning permission. Generally, this is defined as development, undertaken by the airport operator, on operational land, required in connection with the operation of the airport. This covers most forms of airport related development, such as new aircraft hangars, industrial and cargo buildings, multi-storey car parks, office buildings, aircraft stands, piers and satellites etc.

Although 'permitted development' does not require planning permission, there is a requirement to consult the planning authority, which means following a similar process as that for a planning application, albeit that the planning authority cannot refuse approval for the development. This does not however prevent the planning authority from either applying considerations for HAL to take into account (similar to planning conditions), objecting to a specific development, or in extreme cases, the planning authority could request the Secretary of State to remove HAL's permitted development rights. There is also the possibility that any permitted development over 1ha in site area, and likely to cause a significant environmental impact, could also be subject to the Environmental Impact Assessment (EIA) process, in which case permitted development rights would be lost and the normal planning application process needs to be followed.

Generally, any development at Heathrow involving the extension of a runway or terminal, the provision of a new terminal, or a non-operational building (i.e. not connected to the operation or function of the airport) will require planning permission with an application made to the local planning authority.

Any development requiring planning permission, and likely to cause a significant environmental impact, could also be subject to the EIA process, whereby the planning application would need to be accompanied by an Environmental Statement (ES) setting out all likely significant environmental impacts arising from the development. The requirements for EIA are also set out in secondary legislation but in respect of Heathrow only usually apply to major projects, such as substantial new stand capacity or new terminal buildings.

4.3.1.2 Planning Policy

In determining whether development at an airport is acceptable or not, the Planning Act (2004) sets out the hierarchy and format of the development plan process which forms the basis on which decisions are made and controls the amount and type of development at the national, regional and local levels. The 2010 Localism Bill currently being considered in the House of Commons will amend this process by removing the requirement for regional strategies and by introducing a power for local communities to require local planning authorities to draw up neighbourhood plans.

At the national level, aviation policy is set by the Department for Transport with airport development guided by the Air Transport White Paper, (2003) (ATWP), but this will be

replaced by the Coalition Government's sustainable framework for UK aviation, a draft of which is due for consultation in March 2012. National planning policy will also see the Government introduce a National Planning Policy Framework during 2011.

At the regional level for Heathrow, the London Plan (consolidated with alterations since 2004) provides the relevant planning policy framework for London and must be in general conformity with national policy. At the local level, planning policies for the Heathrow area are contained within the Hillingdon Unitary Development Plan, which must also conform to the higher tier regional and national policies.

Local and regional planning policy specific to Heathrow is generally supportive of development that is contained within the limits of growth set down by Government in its decision to permit Terminal 5 and within the defined airport boundary.

In October 2009, the Mayor published his proposals for a new London Plan – Consultation Draft Replacement Plan. The inspector's report on the Replacement London Plan was published in May 2011, with the final version of the Plan expected to be published in the summer of 2011. This document sets out the Mayor's opposition to a third runway at Heathrow.

At the local level, Hillingdon Borough Council are currently preparing their Core Strategy for the Borough, including land in and around Heathrow, a local hearing is expected to take place in the summer of 2011 conducted by an independent inspector.

4.3.1.3 The Planning Act (2008)

The Planning Act (2008) provides a new procedure for dealing with Nationally Significant Infrastructure Projects (NSIP's), through the establishment of National Policy Statements (NPS's) and an Infrastructure Planning Commission (IPC). The Act focuses on the delivery mechanism for any NSIP and aims to overcome the perceived deficiencies and delay inherent in the previous planning inquiry process. The need for such major infrastructure projects is being addressed in 12 sector based NPS's (e.g. Energy, Waste, Water, Rail & Highways) produced by the relevant Government Department, and providing the strategic planning policy framework for each type of major infrastructure. In the future, any airport developments that result in new buildings or runways that would generate in excess of 10mppa or 10,000 cargo air traffic movements would be subject to the new procedure.

The 2008 Act also introduced the creation of an Infrastructure Planning Commission (IPC). The IPC started receiving applications in March 2010 and is an independent decision making authority responsible for examining applications made for a development consent order for a NSIP. The Act has permitted that only under very limited and specific circumstances may a planning decision for a major infrastructure project be determined by the Secretary of State. However, the 2010 Localism Bill will, if enacted, amend this process to the extent that all decisions on major infrastructure projects will be made by the relevant Secretary of State and will abolish the IPC and merge its functions into the Planning Inspectorate.

The 2008 Planning Act also brings the introduction of a Community Infrastructure Levy (CIL). This is a new charge which local authorities will be empowered to collect on most forms of development in their area. CIL will be based on a formula which relates to the size and character of the development it is being charged against. The levy will be used by the local authorities to fund new local and sub-regional infrastructure.

4.3.2 Climate Change Policy

Under the UK Climate Change Act 2008 the UK Government has set itself a legally binding national climate change target to reduce climate change emissions across the economy, including domestic aviation, by 80% by 2050 on 1990 levels, and by 34% by 2020

UK Government policy is that the price of air travel should, over time, reflect its environmental and social impacts. The DfT's 2008 Aviation Cost Assessment Study concluded that aviation was covering its external carbon emissions costs.

In 2008 the European Commission adopted a Directive to include aviation in the EU ETS from 2012. The UK has translated this directive into UK legislation and identified the Environment Agency as the UK's enforcement agency.

The UK Government is also working towards international agreement on a way to bring international aviation emissions within the wider post-Kyoto 2012 framework. Heathrow supports this work and views action at a European level as an interim step towards a global aviation climate policy framework. Heathrow is a founding member of the Aviation Global Deal group which supports a global sectoral approach for aviation.

At an international global level IATA has committed to 1.5% year on year fuel efficiency improvements until 2020, and the aspiration to not increase on 2020 emissions and a 50% net reduction in CO₂ by 2050 on 2005 levels. The ICAO general assembly in 2010 confirmed support for the 2020 and 2050 aspirational goals as well as a 2% annual fuel efficiency target to 2020.

The UK has set an aviation sector target to limit emissions from all departing flights to 2005 levels by 2050. The Committee on Climate Change concluded in its December 2009 report that UK aviation passengers could grow by up to 60% and still meet this target and that this level of growth was consistent with the DfT's Air Transport White Paper 2003.

Heathrow currently has a target to reduce CO₂ emissions from its energy use in fixed assets by 34% below 1990 levels by 2020. Heathrow is subject to the UK's Carbon Reduction Commitment on Energy Efficiency starting April 2010, the EU Emissions Trading Scheme, as well as energy efficiency building regulations (Part L).

As a strategic airport, Heathrow is required to report by May 2011 to the Government Environment on climate change adaptation risks and planned adaptation response.

4.3.3 New EU Air Quality Directive

In April 2008, the EU published a new directive (2008/50/EC) allowing member states to apply for a time extension to meet the EU air quality limit values. For nitrogen dioxide, a maximum time extension of 5 extra years is allowed, meaning that concentration limits would have to be met in 2015. HAL's understanding is that DEFRA will apply to the EU and request this time extension for the UK, where it will lay out the measures to be taken to meet the target by the new date.

BAA is committed to playing a role in tackling air quality and has a number of projects underway under the current Heathrow Air Quality Action Plan. These projects include tackling emissions from aircraft (e.g. through reducing use of auxiliary power units) and by encouraging the use of low-emission vehicles in landside and airside locations.

4.3.4 Noise

There are three main tiers of regulation which govern aircraft noise at Heathrow: International; European and national.

At an international level ICAO requires Member States to adopt a “balanced approach” to noise management. It also sets progressively tighter certification standards for noise emissions from civil aircraft. Aircraft operating in member states must conform to these standards, which are known as Chapters.

The EU has issued various directives relating to the management and control of environmental issues and is increasingly assuming responsibility for the regulation of aircraft noise standards. Member States are obliged to comply with the requirements of the directives and incorporate them into national legislation.

The directives of most relevance to aircraft noise are:

EC Directive 2002/30 which has various elements, including:

- Introducing discretionary powers to restrict the operation of marginally compliant Chapter 3 aircraft, where circumstances support this measure;
- Requiring the publication of environmental noise objectives for the airport;
- Requiring the adoption of a balanced approach to noise management, including the four elements agreed by ICAO.

EC Directive 2002/49 (“Environment Noise Directive”) requires Member States to create noise maps from all transport sources in urban areas by 2007 and to adopt action plans to manage noise by 2008. The directive also aims to harmonise methods for measuring noise across the EU.

In accordance with the Environmental Noise Directive (2002/49/EC), HAL has prepared a draft noise action plan which is awaiting Government adoption in 2011 following public consultation in 2009. This follows publication of noise Lden contours at UK airports in 2006. HAL will publish the noise action plan within 28 days of adoption notification.

The UK Government has an important role in setting and developing the policy framework for aircraft noise control at UK airports. The DfT has recently issued its Sustainable Framework for Aviation Scoping Document for public consultation. The new policy framework will replace the previous Government’s The Future of Air Transport White Paper which was published in 2003.

Pursuant to its powers under the Civil Aviation Acts, the Department for Transport (DfT) has direct control over noise at Heathrow, Gatwick and Stansted airports. The DfT has implemented the following specific noise abatement objectives for the course of the current night flight regime which runs from 2006 to 2012:

- Minimise sleep disturbance resulting from over flight of the noisiest types of aircraft;
- Mitigate the effects of noise, in particular sleep disturbance. This will be done by encouraging the airport to adopt night noise related criteria in order to determine which residents of domestic or noise sensitive premises should be offered insulation schemes;
- Limit the 6.5 hour, 48 dB(A) Leq contour (for the winter and summer seasons combined) to 55km² by 2011 – 2012.

The DfT is committed to consulting on the issue of night flight restrictions prior to the end of the existing arrangements.

Finally there are a number of limit values in place at Heathrow. These include:

- Under Terminal 5 Planning Condition A4, the number of air transport movements at Heathrow Airport shall be limited to 480,000 each year.
- With effect from the 1 January 2016, the area enclosed by the 57dBA Leq 16hr (07:00-23:00) contour shall not exceed 145km²
- The 6.5hr 47dBALeq night quota period contour (for winter and summer seasons combined) is limited to 55km².
- There are also limits on the number and type of aircraft permitted to operate at night between 2330 and 0600.

4.3.5 Airspace Issues

The December 2006 Air Transport White Paper Progress Report stated that the current air traffic arrangements for some UK airports are already nearing capacity (especially in the South East), and the related airspace is among the most congested in the world. The White Paper recognised the need for a structured programme for the redesign of UK airspace that would help protect safety standards, relieve current constraints, reduce delays, take account of environmental impacts and accommodate the forecast increase in air transport movements where additional capacity was supported in the White Paper.

As a result the DfT, National Air Traffic Services (NATS) and CAA (Directorate of Airspace Policy) have convened a group looking at Future Airspace Strategy (FAS). NATS have begun work on a two year scoping study for FAS.

BAA is three years into a five year contract with NATS for the provision of aerodrome control and certain approach services at each of the six UK airports. With the end to "direct charging" these services are now paid for by the airports and recovered from airlines at a rate per landing capped by the regulator. The traffic volume risk is borne by NATS initially but then transfers to BAA beyond agreed limits. The contract sets out governance structures; services included tariffs, procedures for capital projects and exit management provisions for each airport.

NATS have consulted on a proposed piece of airspace change for TC North (a wide area covering North London and parts of East Anglia). This proposes changes to holding patterns and arrival and departure routes for BAA and non BAA airports in the area, in particular to take account of precision navigation (PR-NAV), the need to reduce holding and distance flown, maintain safety and allow for traffic growth. There are implications for noise profiles on the ground. Consultation closed in June 2008, however the proposals were rejected and NATS are now reviewing this in light of the feedback received before submitting fresh information.

Any possible impacts on HAL's investment plans arising from this process are currently excluded from the plans detailed in this document.

4.3.6 Public Safety Zones Review

Public Safety Zones (PSZ's) are areas of land, at the end of runways at the busiest UK airports, within which development is restricted in order to control the number of people on the ground, at risk of death or injury, in the event of an aircraft accident on take-off or landing. The runways at Heathrow have PSZ's associated with them.

Guidance on the policy and administration of Airport Public Safety Zones in England and Wales is published by the Department for Transport (DfT).

The PSZ's currently published for BAA airports are based on risk contours modelled for 2015. PSZ policy stipulates the circumstances when PSZ's should be remodelled. This can be required due to:

- A significant expansion of an airport (The DfT has indicated the broad objectives of PSZ policy as applicable to existing runways should be applied where possible to proposed future runways),
- A change to an existing runway's configuration,
- The requirement for a general update. (It is a requirement of PSZ policy that PSZ's should undergo a general review approximately every 7 years.)

Initial work has begun to develop the programme for reviewing Public Safety Zones. HAL will work with DfT as appropriate to progress this work.

Pending progression of this work, any capital expenditure associated with complying with any revision to the PSZ's at Heathrow is currently excluded from the investment plans.

5 Q5 Delivery

5.1 Q5 Programme Delivery

The Q5 delivery programme is within its fourth year of the quinquennium. To enable efficient delivery of the capital investment detailed in this CIP, HAL has divided the overall plan into programmes for management purposes. Since the publication of last CIP document the baggage programme (which covered pan-airport and local terminal baggage systems) has been encompassed within Eastern, Western and Infrastructure programmes in order to improve efficiency. Furthermore a Design and Development programme has been created which encompasses projects Pre Construction decision in order to provide a seamless handover to delivery.

The Design and Development projects have been presented in their respective programmes within this document.

For the delivery of Q5, the programmes for the main Capital Projects investment works are:

- Eastern Campus (this covers the facilities in the geographic areas of T1 and T2 including all land to the eastern edge of the operational airport)
- Western Campus (this covers the geographic areas of Terminals 3, 4, and 5.)
- Infrastructure (this covers all airfield areas not explicitly included in Eastern or Western Campuses together with landside facilities)
- Airline Relocations (this covers the relocation activities for airlines moving between terminals)

In addition to the Capital Projects investment programmes outlined above, the following other programmes are included in the HAL CIP:

- Information Technology (IT) / Systems (which covers stand alone IT / Systems investment not delivered as part of a main capital investment works)
- Rail (which covers Heathrow Express and other rail led investments)
- Project for the Sustainable Development of Heathrow (PSDH) Programme (which covers future capacity and resilience works)

5.1.1 Q5 Capital Expenditure Programme

Table B sets out HAL's current proposed Q5 Capital Expenditure Plan in 2007/08 prices. Table C sets out the capital expenditure included in the CAA's regulatory settlement for Q5. These tables show that HAL is delivering a CIP that is within the CAA's settlement. The savings in capital expenditure are largely explained by the cessation of work on a third runway.

CIP 2011*Cost base: 07/08 Real*

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
|-------------------|---------------|---------------|---------------|---------------|---------------|--------------|
| Capital Projects* | 683 | 701 | 678 | 922 | 1037 | 4021 |
| Rail** | 12 | 14 | 9 | 54 | 67 | 156 |
| IT | 10 | 31 | 37 | 37 | 8 | 123 |
| PSDH*** | 0 | 19 | 49 | 35 | 59 | 162 |
| Total | 705 | 765 | 773 | 1048 | 1171 | 4462 |

All values in £ millions.

* Capital projects includes payments related to Land Purchased for the Construction of Terminal 5 & transfers from PSDH

** Rail includes unallocated Airtrack budget

*** Excludes unallocated PSDH budget and budget transferred to Capital Projects

*Table B: Total CIP Values - CIP 2011 (07/08)***CAA Q5 Decision***Cost base: 07/08 Real*

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
|------------------|---------------|---------------|---------------|---------------|---------------|--------------|
| Capital Projects | 831 | 1005 | 840 | 641 | 298 | 3615 |
| Thames Water | 3 | 4 | 6 | 6 | 7 | 25 |
| Rail | 28 | 35 | 33 | 29 | 26 | 151 |
| IT | 24 | 23 | 23 | 21 | 20 | 112 |
| PSDH | 163 | 80 | 97 | 123 | 177 | 640 |
| Total | 1050 | 1146 | 999 | 820 | 527 | 4542 |

All values in £ millions.

*Table C: Total CIP Values - Q5 Decision
(Refer Table 8.3 CAA's Determination)***5.1.2 Q5 Extension Year**

HAL has agreed with the airlines a cap for its capital programme in 2013/14 of £735m (2007/08 prices). This will be managed in three distinct budgets (See Figure 1 below) - £435m for projects already started in Q5 (e.g. Eastern Campus and T3IB), £90m for the Crossrail project and £210m for new projects. The exact allocation of monies is subject to consultation with the Heathrow airline community. This exercise is to be completed by June 2012.

Q5 Extension Year Budget Allocation £ millions

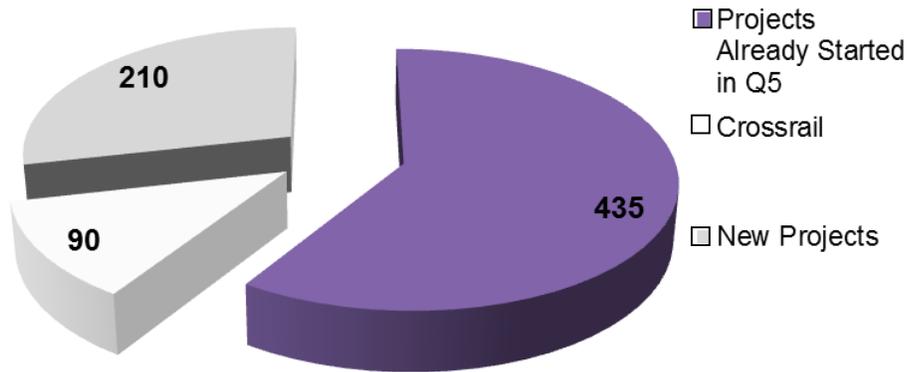


Figure 1

5.2 Eastern Campus Programme

5.2.1 Overview

To date the Eastern Campus Programme has delivered a number of projects (i.e. T2B Phase 1) that have enabled the relocation of STAR airlines into Terminal 1 and the clearance of the site for the building of the new terminal (T2A) and satellite pier (T2B Phase 2). The enabling work has required the demolition and re-provision where necessary of significant parts of Heathrow's infrastructure (including T2, Queen's Building, parts of Europier and Pier 3, MSCP2) and will conclude with the phased demolition of the old control tower building (OCT). The principal elements of the programme moving forward are the construction of Phase One of the new terminal building itself (T2A), the satellite pier (T2B), the short stay car park (MSCP East) including the forecourt and associated landside works and the compliance and capacity works within the existing Terminal 1 baggage system.

Below is a list of projects that are on-going or have not commenced that are over £3m in value (nominal) at April 2011.

5.2.2 List of Projects

BCT Number and Project Name as presented in Schedules

| | | |
|----------|---|---|
| 3814 | : | MSCP East New Build |
| 4201 | : | T2B Phase 2 |
| 7664 | : | T2A Ph2 Baggage System |
| 7720 | : | T2A Phase 2 |
| 8888 | : | OCT Demolition |
| 9351 | : | T1 Baggage Prolongation Programme |
| 9723 | : | Eastern Campus Accommodation and Ancillary Facilities |
| 9805 | : | Eastern Campus Information & Control Systems |
| 10309 | : | T1 Transitions |
| Various: | : | T2A & Associated Projects |

5.3 Western Campus Programme

5.3.1 Overview

An extensive programme of refurbishment works has been delivered in the Western Campus, focused on transforming Heathrow and improving the passenger experience. In Terminal 3 these include: the Landside Departures concourse, the Immigration and Baggage Reclaim Halls and the Flight Connections Centre which were all completed during the first quarter of 2011, the Central Search Area which is due to be completed at the end of May 2011 and the Departures Lounge at the end of July 2011. During the early part of Q5 significant investment was made to refurbishing Piers 5 and 7.

To date Terminal 4 has delivered a number of projects which are key enablers to the success of the Airline Moves sequence. The new interim VIP Suite was opened in July 2010 replacing the Spelthorne Suite, additional off-pier coaching capacity was created, a new departure check-in area was provided, the Landside Arrivals concourse underwent a major refurbishment, two additional Baggage Reclaim Belts were installed, and the refurbishment of the Departures Lounge is due to commence early 2012 for completion a year later.

For Terminal 5 the investment centres on the new Terminal 5C facility. The new satellite is planned to be fully operational and utilised by the end May 2011. On opening it will provide an additional 12 pier served stands, improving the passenger experience by reducing the frequency with which passengers have to be transported in buses between Terminal 5 and their aircraft.

Below is a list of projects that are on-going or have not commenced that are over £3m in value (nominal) at April 2011.

5.3.2 List of Projects

BCT Number and Project Name as presented in Schedules

| | | |
|-------|---|---------------------------------|
| 1851 | : | Post T5 Transfer Baggage System |
| 3801 | : | T3 Integrated Baggage System |
| 3841 | : | Western Campus A380 Stands |
| 9508 | : | Pier 5 A380 Stands |
| 9516 | : | T4 Baggage Works for Step |
| 9640 | : | MCP4 Relife Works |
| 9644 | : | T4 Departures Phase 2 |
| 9844 | : | T4 Airbridge Replacement |
| 10094 | : | T3 HBS Replacement |

5.4 Infrastructure Programme

5.4.1 Overview

The Infrastructure programme has been delivering projects throughout Q5 across the breadth of Heathrow in order to maintain and transform the critical assets which support our terminal and baggage operations. The programme has delivered benefits by generating new stand capacity aligned to the terminal developments, constructed new taxiway sections to allow larger aircraft, new control post infrastructure and also improvements to our core infrastructure including the pollution control & stormwater system and the main Central Terminal Area tunnel. Also, the programme has delivered

numerous projects across all campuses in order to replace and enhance existing assets, such as the toilets, escalators and wayfinding.

The focus for the remainder of the Q is on delivering critical supporting assets for the opening of Terminal 2 such as the Energy Centre, which will achieve significant environmental benefits and the stands and taxiway infrastructure for T2B. Also, across the programme, there will be the completion of the Control Post Programme ensuring the right control post capacity for Q5, and the delivery of Airfield Infrastructure to support the releasing of the Cranford agreement in order to improve the resilience of the airfield.

Finally, the most recent addition to the infrastructure programme has been the Winter Resilience Programme which has emerged following the Begg report commissioned after the December 2010 snow disruption.

The enquiry's report made 14 recommendations, all of which have been incorporated into a detailed action plan to improve Heathrow's winter resilience and passenger service. The capital spend requirement has not been fully determined and is subject to consultation with the airline community, but will be funded from the Q5 Capital plan. The plan is envisaged to consist of the following Sub-Projects, based on recommendations from the Begg report:

- Snow Clearing Equipment
- Additional Glycol Storage facilities
- Snow disposal - snow melting equipment
- Storage & maintenance facilities for the new snow clearing equipment
- Command & Control Centre
- LBRT Control Centre
- De-icer pads

Below is a list of projects that are on-going or have not commenced that are over £3m in value (nominal) at April 2011.

5.4.2 List of Projects

BCT Number and Project Name as presented in Schedules

| | | |
|------|---|--|
| 3353 | : | Major Fire Appliance Replacement |
| 4185 | : | VIP Strategy |
| 4202 | : | EA Airside Rd and Taxilane UnderPass |
| 6527 | : | HAL Minor Projects |
| 6793 | : | Heathrow Storm Water Catchment |
| 7209 | : | Eastern Campus Apron |
| 7666 | : | Energy Infrastructure |
| 7718 | : | Eastern Maintenance Base Redevelopment |
| 8452 | : | Control Post Programme |
| 8735 | : | T5 Phase 2 Airfield Works |
| 8818 | : | Baggage Product Improvement |
| 8857 | : | Taxiway and CDS Rebuilds |
| 9105 | : | New Model Line |
| 9213 | : | Security Projects |
| 9301 | : | Infrastructure Safety Critical Project |
| 9382 | : | PiccEx Station Works |
| 9501 | : | Heathrow Resilience |
| 9575 | : | T5 Transfers Add Security Lanes |
| 9843 | : | Low Cost Security Projects |

5.5 Airline Relocation Programme

5.5.1 Overview

The Airline Relocation Programme continues with the latest Sequence 4.3. Since the publication of the last CIP Air Mauritius, Qatar and Saudi have moved to T4 - Step 9.2 will initiate the airline relocation of Air India to T4. Governance continues to be via the Airline Relocation Working Group, and JST.

The sequence 4.3 is shown below:

| Step Name | Move Description | Date of 1st Op. in New Term. | Notes / ✓ = Completed |
|---------------|--|--|--------------------------|
| Switch 1 | BA T1 exc 757, T4 short haul, & T3 MIA from T1, T3 & T4 to T5 | 27/03/2008 | ✓ |
| Switch 2 | BA T4 long haul exc JSA via SIN/BKK from T4 to T5 (Now delivered in 3 sub-switches) | 2.1 - 05/06/08 2.2 - 17/09/08 2.3 - 22/10/08 | ✓ ✓ |
| Step 3 | STAR Phase 1 (UA & NZ) from T3 to T1 | 04/07/2008 | ✓ |
| Step 4.1 | oneworld T1 (AY) | 27/01/2009 | ✓ |
| Step 4.2 | BA T1 757 Ops, oneworld T2 (IB and XG) from T1 & T2 to T3 | 25/02/2009 | ✓ |
| | Complete closure of Queen's Building | 09/06/2009 | ✓ |
| Step 4a | STAR Ph2 (LH, LX, OS, OU, TP) from T2 to T1 | 11/06/2009 - 16/06/2009 | ✓ |
| | Early Closure of T2 Stands key to T2A delivery | 01/07/2009 | ✓ |
| Step 5.1 | T3 Non-aligned (EY) from T3 to T4 | 30/09/2009 | ✓ |
| Step 5.2 | T3 Non Aligned (9W, MU) from T3 to T4 | 14/10/2009 | ✓ |
| Step 5.3 | QF & BA JSA via SIN/BKK from T4 to T3 | 29/10/2009 | ✓ |
| Step 5.4 | T3 Non-aligned (GF, MH) from T3 to T4 | 29/10/2009 | ✓ |
| Step 6 / 7a | Alitalia : AZ, B3, FB, HY, JU, J2, OA, RO from T2 to T4. KE from T3 to T4 | 10/11/2009 | ✓ |
| Step 6 / 7b | Servisair : AH, AT, KC, SU, W3 from T2 to T4. | 17/11/2009 | ✓ |
| Step 6 / 7c | Cobalt : AF, FV, HM, IY, LN, OK, RB, TS, TU from T2 to T4 | 24/11/2009 | ✓ |
| | Operational closure of Terminal 2, Stands and related Infrastructure | 01/12/2009 | ✓ |
| Step 9.1a | T3 Non-aligned (BG, BI) from T3 to T4 | 09/03/2010 | ✓ |
| Step 9.1b | T3 Non-aligned (KU) from T3 to T4 | 14/04/2010 | ✓ |
| Step 9.2a | T3 Non-aligned (MK) from T3 to T4 | 24/11/2010 | ✓ |
| Step 9.2a | T3 Non-aligned (QR) from T3 to T4 | 18/12/2010 | ✓ |
| Step 9.2b | T3 Non-aligned (SV) from T3 to T4 | 30/03/2011 | ✓ |
| Step 9.3 | T3 Non-aligned (AI) from T3 to T4 | 24/05/2011 | |
| Steps 11 / 12 | STAR Phase 3 from T1 & T3 to T2A | Balance BA Ops (best use of T3) between T3 and T5 | Dec-13 |

5.5.2 List of Projects

7702 : Relocation of Airlines IT Operations

5.6 IT / Systems Programme

5.6.1 Overview

The strategic operating plan for IT was developed during 2009 to support the strategic intents for Heathrow through improving IT service, reducing operating costs and implementing technology which delivers improved value to Heathrow's business, airline and passenger stakeholders.

The IT Programme projects are included in the CIP within the IT line. Projects with an IT component are included within the Capital Programme.

The key strategic IT sub programmes for delivery in Q5 are as follows:

- Enabling/Pre-works to support delivery of a Real Time Airport integrated management system for Heathrow; generating a more cost effective, service differentiating capability for the airport by maximising the flow of information for operations, management and security.
- Vanilla implementation of Oracle E-Business Suite & Programme Controls systems which will drive business change by the adoption of best practice process and supports the programme to simplify the business, raise professional standards and personal accountability and reduce costs.
- Simplification and cost reduction of the current technology architecture and infrastructure which will reduce customisation, the number of vendors and duplication of technology whilst providing an improved, more reliable IT toolset and user experience.
- Early works supporting the delivery of the IT Baggage Programme which is a critical enabler to support the replacement baggage systems across Heathrow. These works include integration of Management Information Systems and cross-campus systems that support the provision of the new automatic baggage tunnels for transfer bags for example.
- Deliver innovation and reliable technology to support Capital construction programmes

Activity funded & managed within the Capital CIP and undertaken by IT include works to support deliveries of Eastern Campus, Western Campus and Infrastructure e.g. replacement of the SCADA Baggage System for Eastern Campus

5.6.2 List of Projects

BCT Number and Project Name as presented in Schedules

IT01: Airport Operational Systems

IT02: IT Infrastructure Renewal

IT03: Business Planning & Support IT Solutions

5.6.3 Additional Explanatory Notes

IT01, IT02 and IT03 are portfolios of projects.

Following an OJEU competition Capgemini has been appointed as the outsource provider of IT Services under a five year contract which will deliver enhanced service levels and other benefits at a lower cost to BAA. The contract does not afford Capgemini any exclusivity and there is an on-going requirement for Capgemini to demonstrate value for money in the delivery of core IT services and any project work that is awarded to it. The cost-effective delivery of the CIP is therefore enhanced by these new arrangements.

5.7 Rail

5.7.1 Overview

Rail investments are led by Heathrow Express (HEX). The programme is designed with the following objectives:

- Continue the mode shift from car to rail, for both passengers and employees
 - Reducing emissions and carbon reduction
 - Reducing the impact of road congestion
- Enhance passenger experience by reducing the journey anxiety, through
 - Integrating with aviation
 - Providing frequency, certainty, reliability
 - Quality service

The Programme comprises of around 80 projects, the projects have been rolled up into key categories according to type.

5.7.2 List of Projects

BCT Number and Project Name as shown in Schedules

10146 : Fleet Modernisation
Various: HEx Growth Projects
Various: HEx Renewal Projects

5.7.3 Additional Explanatory Notes

Various are portfolios of projects

5.8 Q5 PSDH

5.8.1 Overview

The Q5 regulatory settlement allowed for £640m (2007/08 prices) of capital investment for PSDH.

HAL and the airline community agreed that the £640m (inflated to £672m at 2008/09 prices in CIP 2009) should be split between different categories of expenditure. These were:

- £440m for third runway and master-planning activity.
- £62m for runway resilience work, including the ending of the Cranford Agreement.
- £170m for other capacity increasing projects.

This split being broadly equivalent to the manner in which the possible sums for PSDH were outlined by HAL in the period leading up to the Q5 settlement and forming the basis of the £640m.

This split was agreed by the airline community in June 2009 and formally recorded, with the full project control and ex post arrangements, in November 2009.

In May 2010, the UK Government withdrew support for a third runway; this has resulted in third runway expenditure becoming unallocated. These funds can only be allocated to new capacity and resilience based projects/ scope with prior approval from CIPWG, JST and CAA.

The T3 IB project is awaiting CAA endorsement for transfer of £47m from PSDH to Capital Projects.

The recent Winter Resilience Programme initiated, as a result of the Begg report, requires monies in the region of £30m-£50m, and could potentially be transferred from the PSDH budget.

Unallocated R3 Monies within PSDH currently equates to £305m (Table F).

PSDH monies have been included in the CIP 2011 in Projected Outturn prices at £174m (£705m less transfers to Capital for runway resilience and other capacity increasing projects, £226m and unallocated budget.)

PSDH Forecast May 2011 10/11 Prices

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | Total |
|--------------------------|----------------|----------------|----------------|----------------|----------------|--------------|
| R3 | 0 | 20 | 51 | 36 | 277 | 385 |
| Resilience | | 1 | 1 | 22 | 38 | 62 |
| Other | 0 | 3 | 19 | 103 | 100 | 225 |
| Total | 0 | 24 | 71 | 162 | 415 | 672 |
| Projected Outturn | 0 | 24 | 71 | 165 | 444 | 705 |

Actuals to 2010/11
All values in £ millions.

Table D

LESS:

PSDH transfers to Capital through formal change control

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | Total |
|--------------|----------------|----------------|----------------|----------------|----------------|--------------|
| Resilience | 0 | -1 | -1 | -22 | -18 | -42 |
| *Other | 0 | -3 | -19 | -105 | -57 | -184 |
| Total | 0 | -4 | -20 | -127 | -75 | -226 |

All values in £ millions.

Table E

Net PSDH (including budget yet to be transferred & unallocated budget)

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | Total |
|-------------------|---------|---------|---------|---------|---------|-------|
| R3 | 0 | 20 | 51 | 36 | 0 | 108 |
| Resilience | 0 | 0 | 0 | 0 | 19 | 19 |
| **Other | 0 | 0 | 0 | 0 | 47 | 47 |
| Unallocated | 0 | 0 | 0 | 0 | 305 | 305 |
| Sub- total | 0 | 20 | 51 | 37 | 371 | 479 |
| Less Unallocated | 0 | 0 | 0 | 37 | -305 | -305 |
| Projected Outturn | 0 | 20 | 51 | 37 | 66 | 174 |

All values in £ millions.

Table F

*Includes other Capacity increasing projects

**Other includes £47m for T3IB

5.9 Trigger Milestones

5.9.1 Overview

A feature of the CAA price control at Heathrow is a series of projects (so called 'capital investment trigger projects') where a deferral in project delivery would lead to an adjustment to aeronautical charges that can be levied on HAL. These adjustments are intended to ensure that HAL only starts to earn a return on investment once the relevant project is delivered.

There are a total of 24 such projects that cover approximately 60% of HAL's original Q5 capital investment programme. The CAA regulatory settlement for Q5 at Heathrow provided that if none of these projects were delivered at all during Q5, a maximum cumulative reduction to aeronautical charges of £259 million would occur. Forecast total aeronautical charges over Q5 in the CAA's price control document are £5,531 million meaning that the maximum potential reduction is about 5% of total aeronautical income. Note: All figures in this section are in 2007/08 prices. Table 13-2 of the CAA March 2008 publication "Economic Regulation of Heathrow and Gatwick Airports" provides further details.

The specifications of those capital triggers were set out in broad terms and the relevant dates and rebates determined in the CAA decision. They were, however, not defined to a working level. In March 2009, following a period of joint working between HAL and the airline community and formal consultation by the CAA, the CAA published the final definitions of the trigger projects.

5.9.2 Trigger Completion

5.9.2.1 Process

The CAA has set out that the process for testing whether a trigger has been met will be as follows:

- The airport will send certification of completed works to the CAA for confirmation of successful performance against the triggered project milestone(s); and
- The CAA will then consult the airline community (by means of a letter to the AOC) and investigate if any concerns are raised.

In practice the detailed process as implemented by HAL and the airline community is as follows:

- HAL and relevant airline community representatives meet on site and formally record the completion of the project / project element including any agreed outstanding items.
- HAL writes to the CAA providing copies of the relevant documentation from the site meeting. (Point 1 above)
- The CAA then writes to the Heathrow AOC to request comment on the completion, or otherwise, of the trigger. (Point 2 above)
- The AOC writes to the CAA to comment on the completion.

5.9.2.2 Trigger Status

The status of the capital investment trigger projects at March 2011 is that 6 milestones have been delivered on time and endorsed by the CAA. These are the:

- T1 - Completion of BMI Nose Building Facility
- Completion of T2B Ph 1 Stage 1 for OR
- T3 - Completion of pier 5 refurbishment
- T4 - New CIP (stand 407) Lounge Access for Fit-out
- T4 - Completion of 3rd jetties on each 2 A380 stands
- T4 - Completion of North East bank of Check in desks

In total 4 milestones have been delivered but incurred a rebate and have been endorsed by the CAA. These are:

- Completion of T4-T1 baggage tunnel refurbishment - Rebate incurred £0.2m
- T4 - Completion of Baggage Sorter (Replacement) - Rebate incurred £0.6m
- T3 pier 7 Refurbishment Complete - Rebate incurred £0.2m
- Completion of Diversion of East Church Road – not completed yet, incurring a rebate
- T4 Check-in Ph completion of South West bank of check in desks – Rebate incurred £0.2m

Two further projects have been completed and signed off by the airlines, but have yet to be endorsed by the CAA:

- T3 – Completion of Immigration, Landside Departures & Baggage Hall Refurb
- T2A – Ph 1 T2 demolition complete and T2A substructure complete

Details of the status of all the capital investment trigger projects, as at March 2011 month end, is set out in Appendix J: Triggers.

5.9.2.3 Change Control

The CAA's change control process is outlined in Appendix A. HAL and the airline community are developing a working level process to define how they will work together to bring any proposed changes to triggers before the CAA after a period of consultation. Consultation on any changes to scope or date of triggers is progressed through the CIPWG with final ratification by the JST.

Q5 Extension Year

All existing Q5 capital triggers will continue into the extension year with the existing change control process used to agree changes to the current milestones. This process

will also be used to agree any new triggers which may apply to the capital programme during 2013/14. HAL and the airline community will agree any changes to the capital triggers by June 2012.

6 Technical Notes

6.1 Project Definition Sheets

The purpose of a Project Definition Sheet (PDS) is to provide an overview of each individual project. The key content / process in the PDS are:

- PDS completed for all projects with a budget greater than £3m.
- Information on HAL and airline higher level objectives for the project.
- Information on scope, delivery and operational assumptions underpinning the project.
- A section to capture Operational Costs related to the completed investment. e.g. Additional security resource.
- A section to capture Revenue Impact related to the completed investment. e.g. Incremental additional revenue.
- A section on capital financial information, with Estimated At Completion (Outturn) being shown in the main body of the PDS.
- Key context drawings or images in an appendix.

PDS's will not be provided for projects that are due to complete in the regulatory year preceding CIP publication. i.e. for CIP 2011 any projects substantially complete by April 2011 will not have a PDS.

For projects starting in Q5 the EAC will be provided from "live" March month end information.

6.2 Enhancements Made to CIP 2011 Project Definition Sheets

Since the production of CIP 2010, the Mid Q Report findings have been released. The findings have highlighted improvements that have been incorporated in this year's project definition sheets.

The following are new to CIP 2011:

- Project Benefits to both HAL and Airlines.
- Airline engagement, this section provides dates and forums where the airlines have been engaged.
- Airline Financial impact and assumptions.
- An indicative Impact on user charge.
- Non - construction risk, these will include all known operational risk to the airlines.
- Cost benchmarking Details

6.3 User Charge Impact

This is an indicative impact on the airport charges yield of individual capital projects. All inputs and outputs are in real prices, i.e. excluding inflation. The model used to calculate this employs the approach used by the regulator to set maximum airport charge yields for the airport. However, it is not a substitute for the full regulatory model, neither is it a tool suitable for conducting a financial appraisal of projects. The results are for information purposes only and full detailed modelling would be required to accurately forecast impact on yields.

6.3.1 User Charges Q5

The CAA's decision as to the maximum allowed airport charge revenues per passenger at Heathrow for Q5 are summarised in Table G.

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Yield per Passenger 2007/08 prices | £12.80 | £13.72 | £14.76 | £15.84 | £16.99 |

*Table G: Maximum Level of Airport Charges per Passenger in Q5
(Refer Table 15.6 CAA's Determination)*

6.4 Time Schedule Data

The integrated schedule agreed at IBR7 for the remainder of Q5 represents all the project scope agreed at IBR6 for Capital Projects. All schedule data provided is as at March 2011.

The schedules have been divided into the Capital Programme categories of:

- Capital Projects
 - Eastern Campus (T1 & T2)
 - Western Campus (T3, T4 & T5C)
 - Infrastructure (Airfield and projects crossing or outside campus areas)
 - Baggage (Baggage scope integrated into other programmes).
- PSDH work is allocated to the appropriate programmes as listed above.
- IT work by its nature is a steady stream of work and has not been shown on any schedule
- Future rail project work
- The CAA has endorsed to extend Q5 by one year, this will allow Q5 projects that spilled over into Q6 to be an integral part of Q5
- Work for Q6 and beyond has not been defined and is undergoing a process of constructive engagement with airlines

6.5 Inflation

HAL has continued to maintain its Heathrow-specific Blended Index, "HBI" which tracks actual material and labour prices in volumes and at rates appropriate to Heathrow, recognising the management position taken by HAL on, for example, wage agreements.

CIP 2011 utilises the revised spend profile agreed at March 2011 month end and baselines it to a 2011/12 price base. HAL has elected to maintain its position in line with the HBI predictions that construction inflation can be managed to 2% for the year and no uplift is therefore incorporated for the year.

6.5.1 Work Breakdown Structure and Price Base

6.5.1.1 Work Breakdown Structure

The Work Breakdown Structure (WBS) for the programme is current at the report date of March 2011.

The capital Expenditure Lines are:

- Capital Projects
- IT
- Rail
- PSDH

Appendix H provides a 'tracker' detailing how the current WBS relates to the original Settlement (where practical) and identifies notable scope changes between CIP 2008 and CIP 2011. The tracker also cross-references to the PDS sheets provided in the body of the document. The tracker is presented in 07/08 prices.

6.5.1.2 Price Base

The Q5 regulatory Settlement in March 2008 was published in real 2007/08 prices. The following tables (Tables H to J) provide a comparison of the total capital investment plan for Heathrow between the CAA 2008 Settlement in the 2007/8 Price Base, and the CIP 2011 (Outturn prices and 2007/08 Price base).

| CAA Q5 Decision | <i>Cost base: 07/08</i> | | | | | |
|------------------------|-------------------------|---------------|---------------|---------------|---------------|--------------|
| | <i>Real</i> | | | | | |
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
| Capital Projects | 831 | 1005 | 840 | 641 | 298 | 3615 |
| Thames Water | 3 | 4 | 6 | 6 | 7 | 25 |
| Rail | 28 | 35 | 33 | 29 | 26 | 151 |
| IT | 24 | 23 | 23 | 21 | 20 | 112 |
| PSDH | 163 | 80 | 97 | 123 | 177 | 640 |
| Total | 1050 | 1146 | 999 | 820 | 527 | 4542 |

All values in £ millions.

*Table H: Total CIP Values - Q5 Decision
(Refer Table 8.3 CAA's Determination)*

CIP 2011

Cost base: 07/08 Equivalent

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
|-------------------|---------------|---------------|---------------|---------------|---------------|--------------|
| Capital Projects* | 683 | 701 | 678 | 922 | 1037 | 4021 |
| Rail** | 12 | 14 | 9 | 54 | 67 | 156 |
| IT | 10 | 31 | 37 | 37 | 8 | 123 |
| PSDH | 0 | 19 | 49 | 35 | 59 | 162 |
| Total | 705 | 765 | 773 | 1048 | 1171 | 4462 |

All values in £ millions.

* Capital projects includes payments related to Land Purchased for the Construction of Terminal 5 & transfers from PSDH

**Rail includes unallocated Airtrack budget

*** Excludes unallocated PSDH budget

Table I: Total CIP Values - CIP 2011

CIP 2011

Cost base: Projected Outturn

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
|-------------------|---------------|---------------|---------------|---------------|---------------|--------------|
| Capital Projects* | 716 | 737 | 712 | 987 | 1167 | 4319 |
| Rail** | 13 | 14 | 10 | 58 | 75 | 170 |
| IT | 11 | 33 | 39 | 39 | 9 | 131 |
| PSDH*** | 0 | 20 | 51 | 37 | 66 | 174 |
| Total | 740 | 804 | 812 | 1121 | 1317 | 4794 |

All values in £ millions.

* Capital projects includes payments related to Land Purchased for the Construction of Terminal 5 & transfers from PSDH

**Rail includes unallocated Airtrack budget

*** Excludes £305m PSDH budget (Unallocated budget)

Table J: Total CIP Values - CIP 2011

Table J shows total Heathrow Q5 Capital expenditure (outturn prices) of £4,794m. This compares to the CAA's outturn Q5 Capital expenditure forecast of £5,137m. HAL has agreed with the airline community that it will work to ensure that the overall Heathrow Q5 Capital expenditure (outturn prices) will not exceed the CAA's outturn Q5 Capital expenditure forecast.

When deflated to the price base of the original CAA decision (07/08) the Heathrow Q5 expenditure has decreased. The decrease is related primarily to the unallocated PSDH budget that has been removed.

6.6 Risk

6.6.1 Portfolio Risk Provision

Portfolio level risks, i.e. those with low probability of occurrence which are impractical to carry at project level such as catastrophic asset failure, major safety concerns or operational crises and portfolio uncertainties such as inflation fluctuating from expectations and gaps at project interfaces were also considered in the model. HAL elected to exclude the potential financial impact of these risks in order to minimise any latent money in the baseline. The baseline is thus fully deployed in actual work.

With the baseline set at an aggregate P50 (exclusive of portfolio risk), the theory is that 50% of projects will deliver below the P50 which will offset the 50% which cannot. If portfolio risks occur the ability to maintain planned projects would be assessed.

The current overall risk provision represents the lowest threshold of Capital's guideline range for projects entering construction (7%-10%). This value will reduce as remaining pre-implementation works enhance in design maturity.

6.7 Change Control

HAL is continuing with the established change control process which was introduced in June 2008 to capture all changes to projects arising from baseline reviews, budget or scope change. This process is called Client Change Control and ensures that all changes are assessed, consulted upon with airlines and approved for implementation.

The CIP Working Group has been used as a final consultation on behalf of the JST. In addition the CIP Working Group has agreed the categories of client change on which consultation should be conducted, the forum (Stakeholder Programme Boards or CIP Working Group) that should consider each category of change and the airline representatives who have the authority to endorse changes on behalf of the community.

Impacts and status of all change requests are captured on a central Client Change Register. This information is shared with airlines each month via Stakeholder Boards and the CIP Working Group. A dashboard report is also produced for the CIP Working Group each month that is designed to illustrate the volume and status of client changes across the CIP and give an indication of how successfully consultation is being concluded in relation to the implementation of change.

7 Consultation

7.1 Delivery of Annex G commitments in Q5

7.1.1 Consultation on Capital Projects including Stakeholder Programme Boards

A comprehensive structure has been established to consult the airline community on the Q5 programme and beyond. The Joint Steering Team (JST) provides a forum for cross campus consultation and is attended by representatives from the home based carriers, the alliances, IATA and the AOC.

7.1.1.1 Stakeholder Programme Boards

Stakeholder Programme Boards (SPBs) are operating within each of the three Heathrow programmes with the Western Campus divided into 3 respective subsets due to the specific needs of each terminal (Terminals 3, 4 and 5). The Baggage strategy stakeholder board still exists in its current form. The SPBs, which meet on a monthly basis, are chaired by the Heads of Development who have full accountability for all aspects of the programme. The SPBs provide a forum for individual project consultation including change and progress reporting. Membership includes representatives of airlines, alliances, IATA and the AOC.

7.1.1.2 Consultation at Gateways

Recognising that full consultation on all projects would not be appropriate, the airline community were asked to nominate which of the Q5 projects should be treated as 'key projects' for the purposes of consultation. For 'key projects', gateway consultation events are held in line with HAL's project management process at Brief, Option and Construction Decision gateway stages. For the largest projects, consultation has been undertaken through dedicated working groups. For other 'key projects', the airline community have deemed it appropriate to consult through the SPBs. The wider airline community are provided with updates on the outcomes of all gateway consultation events through the JST.

7.1.1.3 Change Control

The Change Control Process is built around the principle of consultation at the earliest stage possible and HAL consults the airline community extensively on changes to cost or scope in the CIP. The status of outstanding change issues is reviewed and reported regularly and a pan airport view of significant items is provided to the CIP Working Group which considers cross campus issues, change that effects more than one sub programme or trigger projects.

It has been recognised that consulting on change effectively with large airline groups is challenging and two Airline Leads have been appointed for each SPB. There are agreed terms of reference for this role the Airline Lead reviews each item of change and confirms that consultation has taken place. The SPBs retain visibility of all significant change issues.

7.1.1.4 Consultation on Risk Allowances

The SPBs and CIP Working Group receive monthly reports on the use of risk allowances with Airline Leads consulted on the significant use of risk monies.

7.1.2 Rail Stakeholder Programme Board

Rail Stakeholder Programme Board was formed in November 2009, the programme Board meets on a quarterly basis and is chaired by the Heathrow Rail Project Manager.

The purpose is to:

- ensure airlines and key stakeholders are engaged with the Programme objectives and delivery, so that the objectives are achieved
- provide stakeholders with an overview of all solutions in the Programme to assure alignment
- Demonstrate compliance with the CAA Q5 CIP Settlement Annex G

Membership includes HEX, AOC, IATA and representatives of airlines and alliances.

7.1.3 Information Technology (IT) / Systems

The IT/Systems scope is covered by three separate portfolios; Airport Operational Systems, Infrastructure Renewal and Business Planning and Support Solutions

In support of Annex G commitments, an Airline Consultation Process has been established for IT; the IT Stakeholder Board is a quarterly meeting which is focussed on high level strategic plans for the future of technology at Heathrow and is attended by Chief Information Officer level representation from British Airways (also representing One World), Virgin Atlantic, Emirates, British Midland, KLM, Star Alliance and the AOC^[1]. The IT Stakeholder Board is supported by the IT Working Group which is a monthly meeting attended by IT Senior Managers from the Airlines and alliances referenced above, with individual representatives nominated by each IT Stakeholder Board member. The IT Working Group is responsible for reviewing and endorsing the IT CIP portfolio and carrying out detailed consultation on key IT projects.

7.1.4 Project for the Sustainable Development of Heathrow (PSDH)

In response to the Coalition Government's clear indication that policy support would be withdrawn HAL announced that it will stop work on the planning application for a third runway. With this the agreed governance, through the 3RR3 Airline Working Group (formally the PSDH Working Group) has been dissolved. The Joint Steering Team (JST) and then the CAA for ratification is the set governance for the PSDH funds.

7.1.5 CIP Working Group

In addition to the Stakeholder Programme Boards, HAL consults with the airline community and the overall delivery and development of the CIP through a monthly CIP Working Group (a sub-committee of the JST) These meetings review the high level progress of Q5 delivery together with monitoring of capital efficiency, Annex G compliance and overreaching financial issues for current and future quinquennia.

7.2 Mid Q Report and Findings

7.2.1 Mid Q Report

In its March 2008 price control decision for Heathrow airport for the five year period starting 1 April 2008 to 31 March 2013 (known as the fifth quinquennium or Q5), the

^[1] Heathrow Airline Operations Committee

CAA set out its intention to conduct an assessment, around the midpoint of Q5, of the airport's performance in relation to capital expenditure and consultation with airlines on airport development and investment (referred to as the assessment).

In March 2010 the CAA commissioned Currie and Brown (C&B) to conduct the assessment of capital expenditure, supported by Steer Davies Gleave (SDG) to lead on the assessment of consultation. The CAA considers the findings of the review in terms of informing a wider review of the Q5 CIP on its completion and in particular any lessons learnt that are of value to inform the Q6 regulatory review.

7.2.2 Mid Q Report Findings

Overall, the CAA considers that Currie & Brown's findings indicate that progress has been made in the first two years of Q5, but there is still room for further improvement in the way that HAL plans, implements, measures and evaluates capital expenditure projects. Looking ahead to the Q6 review, the CAA would expect the airports to take proper account of C&B's findings in preparing and implementing capital investment plans for the remainder of Q5, and for the capex plans that will underpin the airport's regulatory submissions for Q6.

7.3 Information Provision

HAL has provided the detailed information on Q5 to enable effective consultation, through projects, programme boards, and through the CIP. If further information is required by the airline community to enable them to better understand the proposed investment then HAL will endeavour to provide this.

8 CIP 2011 Consultation

HAL would encourage airlines to submit views on the projects and issues set out in CIP 2011 by the end of July 2011, so that they are taken into account in the development of the airports future capital investment plans.

Consultation responses should be sent to:
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